MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIAUNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2015/2016

BEC1614– MICROECONOMICS

(All section/Group)

15 OCTOBER 2015
2.30pm - 5.30pm

(3 hours)

INSTRUCTION TO STUDENT

1. This question paper consists of **4** pages of **5** structured questions.
2. Answer All **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Students are allowed to use non-programmable scientific calculators.
4. Please write all your answers in the answer booklet provided.

QUESTION 1

(a) What is opportunity Cost? Diagrammatically explain how the curve appear if the opportunity cost were constant. (5 marks)

(b) Ben says that "An increase in the tax on beer will raise its price." Holly argues that "Taxes should be increased on beer because college students drink too much." Based on these statements, identify the positive and the normative statement. (2 marks)

(c) Draw a circular flow diagram to illustrate each of the following transactions.

i. Ali earns RM50 today working for ABC Construction Sdn Bhd to refurbish Bukit Jalil National Stadium. (3 marks)

ii. Sarimah bought a printing machine from Abu Machine Sdn Bhd costing RM150,000 to print the 2017 SEA Games banners. (3 marks)

iii. Super Design Sdn Bhd pays Shaun RM500 for his 2017 SEA Games t-shirt design. Shaun uses his money to buy an MP5 player for Sonic Sound Sdn Bhd. (3 marks)

(d) The income effects and substitution effects lead to a decrease in the consumption of a normal good when its price decreases. Do you agree with the statement? Explain using an appropriate example. (4 marks)

(Total: 20 marks)

QUESTION 2

Suppose we are analyzing the market for "Musang King" durians. Musang King durians, also known as clone D197 durians, known for its thick, golden yellow flesh, very smooth with little or no fibres. Musang King durians originated from Gua Musang, Kelantan.

(a) Graphically illustrate and explain the impact of each of the following on the demand or supply of Musang King durians.

i. The price of D24 durians, a substitute for Musang King durians, falls. (4 marks)

ii. The Ministry of Health of Malaysia announces that eating the Musang King durians improve blood pressure, skin health, immune systems, and red blood cell formation. (4 marks)

iii. Consumers' income fall because of a recession and Musang King durian is considered a luxury good. (4 marks)

iv. Currently, the price of Musang King durian is RM2.50 per kg above the equilibrium. (4 marks)

(b) Pak Abu is a Musang King durian seller. He sells his durians for RM10 per kg but reduces to RM7 per kg to his customers who buy 10 kg and more. Based on your microeconomics knowledge, explain Pak Abu's business strategy. (4 marks)

(Total: 20 marks)

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QUESTION 3

(a) Are consumers powerful in market system? Discuss how does perfect competition lead to allocative and productive efficiency? (5 marks)

(b) When does a shut down situations arise for a purely competitive firm? Suppose a producer selling 500 units of chair at RM10 each in a purely competitive market. At this level of output, the marginal cost is $10 and the average variable cost is $12. Should the firm increase output, decrease output, or not produce? Why? (5 marks)

(c) Suppose that Astro, a Malaysian Direct Broadcast Satellite Pay TV service provider monopoly in this industry is selecting existing subscribers to enjoy its 'Price-Knockdown' (price as low as RM22 per month) subscription for a year. The following table gives Astro's demand, costs per month for this special deal:

Price (RM)	Quantity (Unit)	TR (RM)	MR (RM)	TC (RM)	MC (RM)
27	3			56	
26	4			73	
25	5			91	
24	6			110	
23	7			130	
22	8			151	

i. Fill in the missing values in the table. (3 marks)

ii. If Astro wants to maximize profits, what price should it charge, and how many subscriptions per months should it select for this special deal? Calculate its profit and explain. (2 marks)

iii. Suppose the local government imposes RM25 per month tax on Astro Company. What price Astro should charge now? How many subscribers should they select and what will be their profits? (2 marks)

(d) Do you agree or disagree with each of the following statements? Explain your reasoning. (3 marks)

i. For a monopoly, price is equal to marginal revenue because a monopoly has the power to control price.

ii. Since a monopoly is the only firm in an industry, it can charge virtually any price for its product.

(Total: 20 marks)

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QUESTION 4

Rice is staple food in Malaysia and the market price for the normal grade is RM3 per kg. The Malaysian government wants to make food cheap for the urban poor to alleviate hunger. They estimated that all Malaysians could afford rice if they were priced at RM1 per kg. The government decides to impose a price ceiling of RM1 per kg for a normal grade rice, so that RM1 is now the maximum retail price.

(a) What can you say about the price elasticity of demand for rice in Malaysia? (2 marks)

(b) Based on the information above, graphically illustrate the market for the normal grade rice. (4 marks)

(c) Based on the information above, discuss how shortage, government subsidy and black markets (underground economy) will occur. (6 marks)

(d) Given the following list of goods, rank them from the most to least elastic. Justify your ranking for each good. (8 marks)

i. Chicken
ii. Rice
iii. European vacation
iv. Starbuck's Tiramisu Latte

(Total: 20 marks)

QUESTION 5

(a) What are the most important differences between perfectly competitive markets and monopolistic competitive markets? Give two examples of products sold in perfectly competitive markets, and monopolistically competitive markets respectively.
(6 marks)

(b) Why does the entry of new firms cause the demand curve of an existing firm in a monopolistically competitive market to shift to the left and become more elastic?
(4 marks)

(c) Assume that your company in the business of building houses successfully selected by the government as one of the major housing developer for Skim Perumahan Rakyat 1Malaysia (PR1MA). Analyzing the market carefully and your company know that at a price of RM120,000, a total of 800 houses will be sold per year. In addition, at any price above RM120,000, no one will buy your houses because other developers participating in the scheme are also providing equal-quality houses to qualified buyer at RM120,000. You also know that for every RM20,000 you lower your price, you will be able to sell an additional 200 units. For example, at price of RM100,000, you can sell 1,000 houses; at a price of RM80,000, you can sell 1,200 houses; and so on. (Hint: Your business is an oligopolistic market).

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i. Sketch the demand curve that your firm faces. (2 marks)

ii. Sketch the effective marginal revenue that your firm faces. (2 marks)

iii. If the marginal cost of building a house is RM100,000, how many houses will you build and what price will you charge?

(2 marks)

(d) A high price might lead to high profits if other forms do not enter the market, but if high price attracts entry of other firms, it might actually result in lower profits, a low price, by deterring entry, might lead to higher profits. With reference to Apple, evaluate if Apple makes a mistake in not selling its iPads at lower prices in order to prevent other firms like Samsung, Lenovo, Asus, and many more from entering the market for tablets?

(4 marks)

(Total: 20 marks)

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